Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1

GTE's COMMENTS

GTE Service Corporation and its affiliated domestic telephone operating companies

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SUMMARY

1. The challenge for the Commission is to develop a new price cap plan that will allow the marketplace to direct the efficient deployment of the national information infrastructure. This new plan should be based upon the Commission's original concept of price cap regulation, should replace regulation with market forces, and should ensure regulatory symmetry.

2. The Commission adopted its incentive regulation plan for Local Exchange Carriers ("LECs" or "exchange carriers") as a means of replicating the outcome of a competitive market. This plan has not fully realized that goal because of compromises built into the LEC plan and constraints added subsequently. While the Commission from the outset afforded AT&T the most flexibility for those services facing the greatest competition, it did just the opposite in the LEC plan, which focused the greatest regulatory constraint on the most competitive services. This asymmetry has been further emphasized over the past three years, during which AT&T's most competitive markets have been freed even from price cap regulation while the exchange carrier plan has become more complex and restrictive as access competition increased.

3. Despite the deficiencies of the LEC plan, access rates have declined significantly. Indeed, GTE's rates are below their caps -- which indicates the market effectively constrains GTE's earnings. At the same time, incentive regulation has had no detrimental effect on the quality of service or network performance of exchange carriers. LECs have sought to offer new services to the public to meet the growing demand for advanced capabilities but have been limited by the interaction of price cap constraints and the FCC's Part 69 rules.

4. In support of the reforms proposed by USTA, GTE urges the Commission to develop a new price cap plan that: (i) will accommodate technological, marketplace, and regulatory changes, and (ii) will not restrict exchange carriers' ability to be full participants in the building of the national information infrastructure. This action should eliminate regulatory asymmetries that prevent exchange carriers from competing with other providers.

5. As previous distinctions among telecommunications markets and networks erode, a variety of service providers have communications links to homes and businesses throughout America. Converging technology has opened access markets, where LECs are now facing rapidly growing competition offered by such multiple service providers as CAPs, cable, IXCs, and power companies.

6. To promote both new services and competition, the new price cap plan should be based on a more adaptable structure that codifies only elements mandated by public policy concerns. In turn, this will free the Commission to adopt a more effective structure of baskets and bands.

7. In the case of AT&T, the Commission has removed regulatory constraints in areas where competitive alternatives exist. To achieve its stated goals with regard to interstate access, the FCC should adopt a new price cap plan that adjusts the degree of regulation -- including banding constraints, tariff requirements, and new service rules -- to match the degree of competition in each market area. By establishing this framework now, the Commission can allow all market participants to base their decisions on reasonable expectations; and can allow the price cap plan to adapt quickly to future changes, without the need for additional proceedings. The plan should be

based on a reasonable definition of a geographic access market focussed on addressability as a measure of market power.

8. The Commission's new price cap plan should not include a sharing mechanism. The LECs' realized productivity provides no support for sharing as a backstop mechanism, so the stated rationale for sharing has been eliminated. Further, sharing perpetuates an undesirable link to rate-of-return regulation that must be removed for the price cap benefits to be fully realized. Finally, the elimination of sharing is critical to the Commission's ability to deal with a mixed environment where some markets are more competitive than others. In that environment, the elimination of sharing will strengthen the protection that price caps provide customers in less competitive markets.

9. The new price cap plan should employ a lower productivity offset than the current plan. Two very competent consulting firms' analyses of total factor productivity ("TFP") indicate that 1.7 percent is the appropriate price cap productivity offset for LECs. The FCC has suggested a productivity offset of 2.0 percent for another similarly situated and competing telecommunications industry, the cable industry. It would not be appropriate to create an adjustment mechanism for interest rates inasmuch as interest rate changes are reflected in price caps through the GNP-PI and are similar to tax rate changes, which are treated endogenously.

10. The common line formula adjustment should not be retained on either a minute-of-use or per-line basis. A productivity offset based on TFP will fully capture any improvements in LEC productivity attributable to growth in common line demand.

Any adjustment to account for differences in growth between lines and minutes would inappropriately double-count effects already captured in the productivity offset.

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GTE's COMMENTS

GTE Service Corporation ("GTE"), on behalf of its affiliated domestic telephone operating companies, hereby offers its comments on the Commission's Notice of Proposed Rulemaking ("Notice" or "NPRM"), FCC 94-10 (released February 16, 1994), in the proceeding captioned above with reference to industry performance under the Commission's plan of incentive regulation.

INTRODUCTION

In the fifty years since this Commission was established, there has never been a time when telecommunications technology has held such promise as it does today. The United States is poised for a revolution in telecommunications that could bring broadband multi-media services to homes and businesses across the country. Telecommuting, distance learning, and remote health care could offer new opportunities to change the lives of millions of Americans. Teleconferencing, rapid data transfers, and the unlimited possibilities inherent in an intelligent, software-controlled network could provide American business with sophisticated tools needed to grow, to create jobs, to compete internationally.

Recognizing this vast potential, the Administration has developed a policy vision of a new National Information Infrastructure ("NII"). Among the good questions raised

by the Notice is how a price cap plan can be structured so as to promote development of the NII.

At the same time, the United States is embarked upon an unprecedented transformation in the structure of local exchange markets, and interstate access markets in particular. This transformation is being propelled by technology. The same developments in technology that have made the NII possible have also opened the market to many firms, from industries previously thought to be separate, to become rivals for the provision of parts of the NII.

The Commission has chosen to promote actively the development of access competition by permitting new providers to enter the marketplace, by streamlining regulation of some carriers, and by adopting its policy on expanded interconnection. Partly by design and partly out of necessity, the model under which the NII will be developed has already been established: competition within a "network of networks."

What has not yet been established are the ground rules under which investment in the NII will be made by competing firms and how these firms will vie with one another for market success. That is the challenge the Commission faces in this proceeding.

As this country, and the world, move toward a service economy, telecommunications becomes increasingly more important. The ability to transfer, store, retrieve, and manipulate information is the basis of the "information age." In a service economy, telecommunications improves the quality, expands the availability, increases the quantity, and reduces the cost of services. An examination of service industries such as banking, insurance, commodities, publishing, and health-care

reveals significant and increased reliance on telecommunications to improve productivity while stimulating job growth through expansion.[1]

In order for the nation to derive the benefits the NII is capable of providing, it is essential that we build the **right** NII. Not only must there be investment; it must be the right investment, in the right technology, by the most efficient firms, to provide the services customers want.[2]

While parts of the new network of networks are taking shape around us every day, no one can say what form it will finally take. Government cannot know to what extent the NII should be delivered to customers over fiber, coaxial cable, copper wires, radio waves, or in what combinations of these elements. Given this uncertainty, if government deliberately or inadvertently "picks winners," there is a great likelihood of error. The vast expenditures involved could make error very costly indeed.

The task for the Commission is to ensure that the market is permitted to tell us what kind of NII we should have, and who should build it. Having chosen a competitive

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1 *See*, for example, Table 7 in *The Economic Impact of Revising the Interstate Price Cap Formula For The Local Exchange Companies*, by the WEFA Group, which appears as Attachment 7 to the comments of USTA submitted in the instant proceeding. This table shows that most industries made more intensive use of telecommunications in 1993 than they did in 1983. WEFA projects that this trend will continue over the next decade.

2 The Commission cannot know today which firms will be most efficient tomorrow. However, Robert Harris has made a persuasive case that any scenario for the deployment of the NII must involve active participation by the Local Exchange Carriers ("LECs" or "exchange carriers"). LECs provide service to the widest range of customers today and their networks have been the vehicle for ensuring the connectivity of other networks. Therefore, any framework of rules which prevents LECs from competing effectively will almost certainly bias the market outcome. *See*, Robert G. Harris, *The Economic Benefits of LEC Price Cap Reform*, attached to USTA's comments in this proceeding (*"Harris Paper"*).

market model for interstate access, the Commission should adopt rules that allow that market to function efficiently. If the Commission's rules are to encourage the creation of a new, advanced network, these rules must permit and encourage the introduction of new services based on existing and new technologies by any and all market participants, including exchange carriers. These comments show *infra* that to achieve the foregoing, treatment of competing firms, technologies, and services should be grounded in a policy of regulatory symmetry.[3]

These comments further:

1) provide evidence based on GTE's performance that the current plan, despite its shortcomings, produces better results than traditional rate-of-return regulation;

2) explain why, to meet the Commission's policy objectives, the FCC should adopt a new price cap plan that better comports with the original concept of price caps;

3) describe the changing environment for which the plan must be designed; and

4) present specific proposals for a new price cap plan.

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[3] For a more extensive discussion of the need for regulatory symmetry, see the statement of Dr. Mark Schankerman, *Regulatory Reform for Local Exchange Carriers: Competition through Regulatory Symmetry*, included as Attachment A to these comments. Dr. Schankerman describes the elements of a new price cap framework to promote the FCC's goals in the new access environment; and suggests a comprehensive approach to access reform as part of the price cap revision process.

New telecommunications technology, deployed in an advanced national information infrastructure, holds the promise of great benefits for the United States. No one can say how this infrastructure should develop. The Commission must now create a price cap plan that will allow market forces to direct the efficient deployment of the NII. This plan should be based upon the Commission's original concept of price cap regulation, should replace regulation with market forces, and ensure regulatory symmetry.

DISCUSSION

I. THE CURRENT PLAN PROVIDES EVIDENCE THAT THE PRICE CAP CONCEPT IS EFFECTIVE IN REPLICATING A COMPETITIVE MARKETPLACE.

1. The current LEC price cap plan has not realized the full potential of price cap regulation.

The adoption of the current LEC plan was a first step toward regulatory reform. However, compromises in the plan's design have prevented it from realizing the full potential of price cap regulation. Subsequent changes in the plan or its application made it still more rigid and cumbersome and have led further away from the Commission's original intention.

Discussed *infra* are the reasons why, to achieve the expanded objectives set forth in the Notice, the Commission must design a new plan. This new plan should be designed to take full advantage of price caps as a regulatory tool in order to meet the FCC's newly expanded goals in today's environment of competition and rapid technological change. Before addressing the design of a new plan, these comments review the current plan for exchange carriers; how it was envisioned; what was adopted; how it has evolved; and its effects.

The Commission initiated its investigation of incentive regulation in 1987.[4] After several rounds of pleadings, a price cap plan was adopted for AT&T in 1989, and in 1990 a different plan was mandated for GTE and the Regional Bell Operating Companies ("RBOCs").[5] The Commission saw in price caps a means to more closely replicate the results a competitive market would produce. The Commission sought to "harness the profit-making incentives common to all businesses to produce a set of outcomes that advance the public interest goals of just, reasonable, and nondiscriminatory rates, as well as a communications system that offers innovative, high quality services."[6]

To accomplish this objective, the Commission adopted a plan for exchange carriers that "modifies the tariff review process to set a ceiling, or cap, on the prices LECs can charge for their interstate offerings."[7] The cap "is subject to an annual adjustment that ensures prices will drop in real, inflation-adjusted terms."[8] As the Commission visualized incentive regulation:

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4 Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, CC Docket No. 87-313 ("*D.87-313*"), Notice of Proposed Rule Making, 2 FCC Rcd 5208 (1987).

5 *D.87-313*, Second Report and Order, Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd 2873 (1989), and Erratum, 4 FCC Rcd 3379 (1989) (referred to as either "*D.87-313 Report and Order*" or "*AT&T Price Cap Order*"), Second Report and Order, 5 FCC Rcd 6786 (1990), and Erratum, 5 FCC Rcd 7664 (1990) ("*LEC Price Cap Order*"), *modified on recon.*, 6 FCC Rcd 2637 (1991) ("*LEC Price Cap Reconsideration Order*"), *aff'd. sub nom.* National Rural Telecom Association v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

6 *LEC Price Cap Order*, 5 FCC Rcd at 6787.

7 *Id.*

8 *Id.*

> LECs that can outperform the productivity level embedded in the annual adjustment mechanism are rewarded with the ability to retain reasonably higher earnings than would be available under the former regulatory system.[9]

In adopting the current plan, the Commission found there are "economic benefits to be obtained from moving away from a system in which regulators dictate prices on the basis of fully distributed costing principles, toward a system of limited pricing flexibility."[10] In order to "enable[] carriers to effect limited rate changes without regulatory intervention," and recognizing that cost allocations under rate-of-return regulation had distorted relative rate relationships, the Commission intended this limited flexibility to allow LECs to adjust rates, over time, to more efficient relative levels.[11] The Commission had also expected (NPRM at paragraph 31) that the plan would encourage the introduction of new services, modernization of the network and deployment of new technology. Thus, the current plan was intended to promote greater overall efficiency ("X-efficiency"),[12] to elicit innovation by exchange carriers,[13] and to improve allocative efficiency by realigning relative rates.[14]

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9 *Id.*

10 *Id.*, 5 FCC Rcd at 6791.

11 *Id.*

12 *Id.*

13 *Id.*, 5 FCC Rcd at 6790.

14 *Id.*, 5 FCC Rcd at 6791.

However, the plan adopted for exchange carriers incorporated a series of departures from the price cap concept that contrasts sharply with the plan adopted for AT&T.

First, while the Commission had tentatively proposed a true price cap approach, and had adopted such an approach for AT&T, it added a sharing mechanism to the LEC plan which reintroduced many of the drawbacks of rate-of-return regulation.

Second, the Commission based the LEC plan on the existing Part 69 rate structure, although many commenters warned that this would compromise the plan.[15] AT&T had never been subject to anything like the Part 69-prescribed rate structure, so there was no question of including such a rigid structure in the AT&T price cap plan.

Third, the basket-and-band structure of the AT&T plan was, even at the outset, simpler and less restrictive than that of the LEC plan. This can be seen by comparing the diagram of the LEC basket-and-band structure in Attachment E with the corresponding diagram for AT&T's plan in Attachment D. These diagrams also illustrate a difference in pattern: the AT&T plan varied the degree of regulation according to the degree of competition, by service. Those services facing the greatest competition were afforded the most flexibility. **In the LEC plan, the Commission did**

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[15] The Commission did exempt price cap companies from certain cost allocation and pricing rules in Part 69. However, the plan retains the Part 69 rate structure rules which have caused the plan to inhibit, rather than promote, innovative services.

just the opposite; it focused the greatest regulatory constraint on the most competitive services.[16]

With increased competition in the long distance market since the adoption of the AT&T plan, the Commission has accordingly simplified and streamlined its price cap regulation of AT&T. This is consistent with the general policy the Commission has followed in the interexchange market since divestiture. The changes in AT&T's plan may be seen by comparing diagram D-1 with diagram D-2. Today, only the few services remaining in AT&T's Basket 1 are subject to price caps, and the Commission is "currently considering moving additional services out of the remaining AT&T price cap basket."[17]

In contrast, as competition has increased in access markets, the Commission has responded by making the LEC price cap plan more complex and restrictive. The proliferation of new subindices and banding constraints applicable to exchange carriers is shown by a comparison of diagrams E-1 and E-2. Even the introduction of zone pricing -- which was intended to create a limited measure of flexibility -- has been accompanied by the creation of redundant subindices at the zone and basket levels.

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16 For example, more competitive LEC services, like DS-1 and DS-3 for both switched and special access, are subject to the PCI of the Trunking basket, the +/-5 percent band of the High Capacity service category, the additional bands of +/-5 per cent on their individual subindices, and the bands on each density zone. The most competitive AT&T services, in contrast, were removed from price caps altogether.

17 NPRM at paragraph 37.

In addition to the multiplicity of banding constraints, the Commission has developed more restrictive pricing rules for new LEC services. At the outset, both AT&T's plan and the LECs' plan called for new services to be justified on the basis of a net revenue test. However, exchange carriers' new services have since become subject to a complex analysis involving direct costs, overhead allocations, risk premiums, revenue-neutrality requirements, technology-based cost models, ARMIS data comparisons, and specific pricing objectives. When combined with the need to waive or change the Part 69 rules to introduce a new rate element, this process represents a significant barrier to the introduction of new services.

The Commission has an express goal of promoting the introduction of new services and technologies. The Communications Act[18] creates a presumption in favor of new services, and places a burden on any party opposing a new service to show that it is not in the public interest.[19] Yet the Commission's rules do just the opposite -- they place a heavy burden on any LEC that proposes a new service. Because the rate structure is prescriptive (except for special access), the LEC must seek either to

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[18] *See* 47 USC Section 157.

[19] At the heart of Title II is the concept of carrier initiative. *Nader v. FCC*, 520 F.2d 182, 198 (D.C. Cir. 1975). The carrier is a private enterprise whose ownership is at risk in the conduct of the business. Though subject to extensive regulation, its management rests with the firm, not with government. *State of Missouri et rel. Southwestern Bell Tel. Co. v. Public Service Comm'n of Missouri*, 262 U.S. 276, 289 (1922). Since the carrier is obliged to act lawfully, it is foreclosed from courses of action found to be unlawful. But, under the concept of regulation that underlies the Communications Act, the choice among lawful options is within the carrier's discretion.

change the rules or obtain a waiver of them.[20] A rule change is a long, difficult, and highly uncertain process.[21]

The waiver process is no easier. The Commission's rules of procedure governing waiver petitions were not designed for the review of new services; they were intended to make allowances for unusual circumstances.[22] The waiver process assumes the validity of the rule -- a rule that in this case precludes a new service. An exchange carrier seeking a waiver is placed in the anomalous position of having to demonstrate that its proposed service is valid only in unique circumstances.

In order to grant a petition to change or waive its rules, the Commission must decide how the proposed service should be classified within the existing rate structure. And, as explained *infra*, many of the services which technology is now making possible do not fit neatly within the existing Part 69 rate elements.

The long and uncertain process, the need to meet waiver criteria which have little to do with the merits of the service, and the prospect of dealing with the problem of

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[20] Since the beginning of the access charge plan, the rules have allowed new special access subelements to be introduced without a waiver. This experience with special access demonstrates that the Commission does not need to prescribe a rate structure to regulate effectively.

[21] At each step in this process, the LEC proposing a new service has the burden of justifying a rule change that might affect nearly 1,300 other carriers and their customers. Even if a new rule is adopted as a result of the extended and uncertain rulemaking process, the LEC must then submit a tariff, which will then be subject to a possibly extended tariff review process.

[22] For the formidable burdens to be carried by an party asking for a waiver, *see* Wait Radio v. FCC, 418 F.2d 1153 (D.C. Cir. 1969), *cert. denied*, 409 U.S. 1027 (1972); and Northeast Cellular Co. v. FCC, 897 F.2d 1164 (D.C. Cir. 1990). Since the Commission need not respond to a petition for waiver within any set time, waiver petitions have been known to linger for many months.

classification, present a formidable barrier to any company contemplating a new service proposal. The effect of this barrier can be measured not only in the delay or rejection of proposals that were filed, but also in the proposals that were not filed because companies were deterred by the rules. Evidence of this latter effect can be found in the number of access services which are available in state tariffs today, but not at the interstate level. These include Integrated Services Digital Network ("ISDN") functions, virtual private line, and configurable private line services.

The existing rate structure has become outdated. More importantly, the policy of maintaining a prescribed list of rate elements has become outdated. This approach served the purpose of jump-starting the introduction of access services at divestiture. Now that a market for access exists, there is no further need for a codified structure. Attempting to keep a list of elements current in the face of unprecedented changes in the market and technology is a hopeless task, an impediment to new service introduction, and a waste of scarce Commission resources. Even if a list were developed that reflected current technologies, again it would quickly become obsolete.

New services are an essential part of the LECs' response to competition and a wider array of new service choices is one of the most important benefits customers gain from competition.[23] The current rate structure, which applies only to the LECs, is an

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[23] For example, one of the greatest consumer benefits of the Commission's pro-competitive policies toward the interexchange market has been the array of new services AT&T has introduced in its efforts to compete effectively in that market. In fact, post-divestiture AT&T has never voluntarily proposed an across-the-board reduction in MTS rates. All of the benefits consumers have enjoyed as a result of AT&T's competitive response have come in the form of new services and discounted optional plans.

important aspect of the asymmetrical regulatory approach which prevents LECs from responding effectively to competition. While LECs must struggle for months to obtain approval for a new service, CAPs are free to offer new services on one day's notice.

Finally, decisions to invest in the telecommunications infrastructure will be conditioned on each competitor's assessment of its ability to generate revenue from that investment by delivering new services. If LECs are faced with the expectation of a regulatory process that makes new service introductions difficult, then the expected payoff from investing in new network capabilities will be reduced accordingly.

While some differences between the AT&T and LEC plans at the outset may have been justified by differences between the long distance and access markets, there is no justification for the difference in the **direction** the two plans have followed over the last three years. To promote effective competition in access markets, a LEC price cap plan must allow for increased reliance on market forces as competition develops. To promote innovation, the plan must at least have a structure that allows for the timely introduction of new services. To promote efficient development of the infrastructure, the plan must allow firms to base their investment decisions on market risks and rewards.

The Commission was entirely correct in recognizing that price cap regulation provides the opportunity to realize these objectives more effectively than is possible with rate-of-return regulation. The AT&T plan was designed to take full advantage of the opportunities presented by price caps. The LEC plan was not. Infirmities in the LEC plan as adopted, together with additional constraints introduced subsequent to

adoption, have to a great degree denied the public the benefits sought by the Commission.[24]

In summary: The Commission adopted the current plan as a means of replicating, as closely as possible, the outcome of a competitive market. The plan for exchange carriers has not fully realized that goal, because the Commission at the outset built certain compromises into the plan, and later as access competition developed added additional constraints.

2. GTE's results demonstrate that a price cap plan can effectively replace rate-of-return regulation. ***(Baseline Issues 1c, 3b & 8c)***

A. Market forces, rather than the cap and sharing mechanisms, effectively constrained GTE's earnings during the 1991-1993 period.

While much more could have been accomplished if the Commission had applied a more efficient and adaptable price cap plan, the plan adopted was an improvement over traditional rate-of-return regulation.

As determined by the Commission (at NPRM paragraph 25), interstate access rates are $1.5 billion lower than initial 1991 rates. GTE accounted for $322 million of that reduction. Of particular note, GTE's contribution to the $373 million resulting from below-the-cap pricing was $299 million, or 80 percent. GTE made below-band filings of $71.6 million to lower its rates because of competitive pressures. As the Notice

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[24] The Commmission's enforcement of the existing price cap rules has in some cases directly prevented GTE from passsing on the benefits of rate realignments to access customers. For example, GTE submitted reductions amounting to $81.7 million in its local transport rates for certain states on April 2, 1992. These reductions, which constituted a below-band price cap filing, were fully supported by an average variable cost study in compliance with the Commission's rules. However, these rate reductions were not allowed to go into effect until December 15, 1992, resulting in foregone benefits to customers of approximately $34 million.

observes (*id.*), exchange carrier DS1 and DS3 rates decreased faster than other services. GTE provided a reduction of $36.3 million in these rates.

The Notice (at paragraph 26) observes: "The initial price cap rates in January, 1991 were targeted at an 11.25 percent rate of return." GTE's earnings under the plan are reflective of the aggressive price reductions it has instituted.[25] For the years 1991-1993 GTE's rates-of-return were:

1991	11.74 percent
1992	11.22 percent
1993	10.25 percent

These figures establish that market forces, rather than the cap and sharing mechanisms, have effectively constrained GTE's earnings during the 1991-1993 period.

B. Incentive regulation has not had a detrimental effect on exchange carriers' service quality or network performance.

GTE has invested in its infrastructure at levels consistent with the incentives provided in the current plan. GTE is aggressively placing fiber in its network. In 1989, GTE had 34,329 total sheath kilometers of fiber in its network. At year end 1993, GTE had 63,394 total sheath kilometers of fiber, an increase of 84.67 percent. GTE also is modernizing its switching network to meet market demand. Since 1989, GTE has deployed 1,819 digital switches (27 percent of the digital switches deployed by the industry), bringing the percent of GTE's access lines served by digital switches to 88 percent. Additionally, GTE has equipped 272 switches with ISDN capabilities and has

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[25] The NPRM indicates (at paragraph 26) that GTE's 1992 earnings were 11.26 percent. In fact, GTE's earnings for 1992 were 11.22 percent.

equipped 2,034 switches with interLATA Signaling System 7 ("SS7") functionality and 2,157 with intraLATA SS7 functionality.

With respect to service quality and network performance, incentive regulation has not adversely affected GTE's quality of service or the performance of its network. Statistics taken from reports submitted to the Commission for an eight-quarter period (fourth quarter 1991 to third quarter 1993) reflect that the duration of GTE's unscheduled switch downtime (two minutes or over) has been decreasing steadily. The amount of unscheduled downtime is insignificant when compared to the total on-line time of all GTE's switches. The same reports show that trunk blockages for all three categories reported have not increased overall through the eight-quarter study period. In fact, the trend has been downward. As GTE converts more of its older switches to digital, throughput should continue to improve with fewer trunk blockages.

One of the drivers in service complaints, especially in the recent past, has been a series of natural catastrophes that have affected telecommunications providers and their customers. As the Notice recognizes (at paragraph 28), the weather has created natural catastrophes ranging from the fires and floods in California, to the floods in the midwest, to hurricanes in Florida, South Carolina, and Hawaii. Many of these natural disasters affected service in GTE operating areas. The industry has coped admirably and overall LEC service quality has not degenerated.

Service quality has been and remains a prime concern to GTE at both interstate and state levels. GTE is constantly striving to improve its service. As competition

increases, service quality becomes a more important factor in customers' choices. GTE's service quality has not been adversely affected by price caps.[26]

The Notice (at paragraph 27) says: "[S]ervice quality under price caps has been similar to levels under rate of return regulation." Further, it states (at paragraph 27 n.19) that "[t]he average number of such [residential] complaints fell to 24 in the second quarter of 1993." Fluctuations in residential service complaints are primarily created by situations not under the control of the LECs, *e.g.*, construction activity and the weather's effects on all service providers.[27] GTE believes that there are few industries where the ratio of service complaints to the number of customers served is less than in the local exchange carrier industry.

The Notice (at paragraph 83) seeks information on the availability of new services to customers. GTE has introduced twenty-eight new services[28] to the interstate access market since 1991. These are widely available and include such innovative services as Fractional T1, Fiberconnect, Video Transport, European T1, new Digital Data speeds, and 12/24 capacity DS3 systems and SS7 related services including 800 Data Base, Line Identification Data Base ("LIDB"), and out-of-band

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[26] During the eleven-quarter study period available for analysis (1991 through third quarter 1993), GTE only had three service quality complaints at the federal level. On the state side, GTE's service quality results (combined business and residence) for 1993 show 1,065 complaints versus 16.1 million access lines served. This level of complaints involves a very small percentage of total access lines served.

[27] *See* NPRM at paragraph 28.

[28] The number of new services with unique rate elements GTE implemented that were (or will be) included in a price cap basket is twenty-eight. GTE has a number of other services that are "new" but are not chargeable. GTE has filed tariff transmittals for a total of thirty-one services including non-price cap services such as packet switching, frame relay, and interconnection.